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Economy: Sep-24 NCPI expected at 7.6% YoY - lowest since Jan-21

As we approach the upcoming NCPI reading, we notice the high base-induced moderation following the unprecedented inflation surge to bring the upcoming print down to a four-year low at 7.6% YoY in Sep-24. To highlight, NCPI reached a high of 38.0% YoY during this period in May-23. The expected reading for Sep-24 is likely to take the 1QFY25 average to 9.4% YoY versus 1QFY24 average of 29.0% YoY. However, despite the recent cuts in interest rates (450 bps since Jun-24), real interest rates are expected to stand at a towering ~990 bps (refer RHS). On a segmental basis, we expect food & non-alcoholic beverages to decrease by 0.3% MoM, and the Transport index by 1.3% MoM, due to falling POL prices. The upward adjustment in electricity charges (+1.6% MoM) is expected to positively contribute to Sep-24 NCPI.

Food and Transport segment to support the falling pace of inflation

The Food & Beverages segment is expected to exhibit a decrease of 0.3% MoM in Sep-24, arising from a fall in prices of wheat and fresh fruits and improved supplies of major food items. Additionally, we expect the Transport segment to reduce by 1.3% MoM in Sep-24 due to decreasing international oil prices, translating to lower POL prices locally. The drop in petrol and HSD prices by PKR 10.3 and PKR 10.0 per liter respectively, is expected to translate to a negative reading for the overall transport segment.

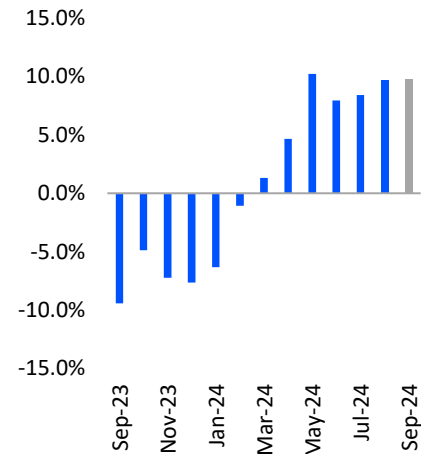
Upward QTA to elevate electricity reading

We anticipate a 1.6% MoM increase in average electricity tariff on the back of an upward adjustment in QTA by PKR 0.82 per kwh to PKR 1.75 per kwh in Sep-24. Additionally, an FCA of PKR -0.37 per kwh, of Jul-24, will be passed on to consumers in Sep-24. Overall, the Housing, Water, Electricity, and Gas & Fuels segment is expected to record a 0.5% MoM uptick in Sep-24 versus -1.4% MoM in Aug-24.

Outlook

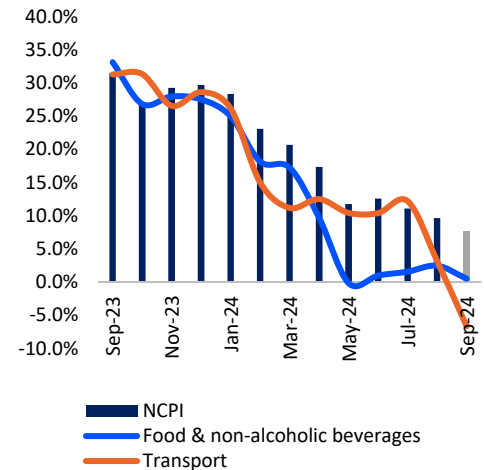
Positivity shrouds the economic landscape as Pakistan enters Oct-24 following the IMF approval on a fresh USD7.0 bn program, strengthening FX reserves and stabilizing PKR/USD parity. However, the contractionary phase supporting the buildup of shock absorbers will now coincide with the cuts in policy rate, supporting consumption and presenting upside risk to the pace of inflation. We believe the medium-term inflation outlook will primarily be driven by the sustainability of the external account. The real interest rate is expected to stay elevated at ~990bps for Sep-24 despite the sharp 200bps cut in policy rate recently, providing room for further easing in the upcoming MPC meeting in Nov-24.

Real Interest Rate (%)



Source: PBS, SBP, Akseer Research

Food, Transport & NCPI (YoY)



Source: PBS, Akseer Research

Sep-24 MoM National CPI Breakdown

Segments	Weight in CPI	MoM	Cont. to MoM CPI
Food & Non -Alcoholic Beverages	34.58%	-0.30%	-0.11%
Housing, Water, Electricity, Gas & Fuel	23.63%	0.50%	0.11%
Clothing & Footwear	8.60%	0.14%	0.01%
Restaurants & Hotels	6.92%	0.75%	0.05%
Transport	5.91%	-1.29%	-0.09%
Others	20.36%	0.5%	0.10%
MoM change in CPI			0.07%
YoY Change in CPI			7.56%

Source: PBS, Akseer Research

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